

STOLL · KEENON · OGDEN
P L L C

2000 PNC PLAZA
500 WEST JEFFERSON STREET
LOUISVILLE, KY 40202-2828
MAIN: (502) 333-6000
FAX: (502) 333-6099
www.skofirm.com

KENDRICK R. RIGGS
DIRECT DIAL: (502) 560-4222
DIRECT FAX: (502) 627-8722
kendrick.riggs@skofirm.com

September 22, 2008

RECEIVED

SEP 22 2008

PUBLIC SERVICE
COMMISSION

VIA HAND DELIVERY

Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RE: The Application of Big Rivers Electric Corporation for: (i) Approval of Wholesale Tariff Additions for Big Rivers Electric Corporation, (ii) Approval of Transactions, (iii) Approval to Issue Evidences of Indebtedness, and (iv) Approval of Amendments to Contracts; and of E.ON U.S. LLC, Western Kentucky Energy Corp., and LG&E Energy Marketing, Inc. for Approval of Transactions
Case No. 2007-00455

Dear Ms. Stumbo:

Enclosed please find and accept for filing the original and ten copies of the Joint Applicants' September 22, 2008 Supplemental Status Report in the above-referenced matter. Please confirm your receipt of this filing by placing the stamp of your Office with the date received on the enclosed additional copies and return them to me in the enclosed self-addressed stamped envelope.

Should you have any questions please contact me at your convenience.

Yours very truly,


Kendrick R. Riggs

KRR:ec

cc: Parties of Record

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BIG RIVERS)
ELECTRIC CORPORATION FOR)
(I) APPROVAL OF WHOLESALE TARIFF)
ADDITIONS FOR BIG RIVERS ELECTRIC)
CORPORATION; (II) APPROVAL OF)
TRANSACTIONS; (III) APPROVAL TO ISSUE)
EVIDENCES OF INDEBTEDNESS; AND) CASE NO. 2007-00455
(IV) APPROVAL OF AMENDMENTS TO)
CONTRACTS; AND OF E.ON U.S., LLC,)
WESTERN KENTUCKY ENERGY CORP.,)
AND LG&E ENERGY MARKETING,)
INC. FOR APPROVAL OF TRANSACTIONS)

SEPTEMBER 22, 2008 SUPPLEMENTAL STATUS REPORT

The Applicants (“Applicants”), Big Rivers Electric Corporation (“Big Rivers”), E.ON U.S. LLC (“E.ON U.S.”), Western Kentucky Energy Corp. (“WKEC”) and LG&E Energy Marketing, Inc. (“LEM,” and collectively with E.ON U.S. and WKEC, the “E.ON Parties”), make this supplemental status report filing, through counsel, to comply with their commitment to do so in their September 8, 2008 Supplemental Status Report (“Status Report”) in this proceeding.

Ambac Assurance Corporation Issue

In the Status Report, Big Rivers and the E.ON Parties reviewed the status of the three outstanding lease and leaseback transactions (“Leveraged Leases”).¹ Certain credit enhancements

¹ On April 18, 2000, Big Rivers consummated five virtually identical lease and leaseback transactions of its ownership interest in (i) D. B. Wilson Unit No. 1 (ii) Plant Robert D. Green Unit 1 and Unit 2; and (iii) the common facilities owned by Big Rivers which are located on the same site as the Green Units, and used in the operation of both Green Units. Approval to enter into the Leveraged Leases was granted by the Commission in its orders of November 24, 1999 and March 29, 2000 in Case No. 99-450, *In the Matter of: Big Rivers Electric Corporation's Application for Approval of a Leverage Lease of Three Generating Units*. Bank of America Leasing Corporation was the other original equity party to the Leverage Lease transaction and held two of the five Leveraged

in the Leveraged Leases are supported by Ambac Assurance Corporation (“Ambac”). On June 19, Moody’s Investor Services, a credit rating service, announced a downgrade of Ambac’s credit rating that fell below the minimum credit rating required by the terms of the Leveraged Lease documents (“the Ambac Issue”).

As indicated in the Status Report, based upon a number of factors, including timing and the Rural Utilities Service (“RUS”) concerns, Big Rivers and the E.ON Parties began working during the week of August 18, 2008 on alternate terms for a solution that, among other things, would be simpler than the first solution proposed by Big Rivers. Big Rivers, the E.ON Parties, Ambac and RUS have agreed in concept to the cash termination of the three Leverage Leases with Philip Morris Capital Corporation (“PMCC”), at the closing of the termination transactions. PMCC has agreed in concept, but the parties are still negotiating the details of the agreement. The smelters have been informed of the termination plan, and have reacted positively to that plan, but are continuing to study the cumulative effect of the most recent changes in the most recent version of the Financial Model.

The termination payment to PMCC is supported by a financial instrument known as an Investment Contract. American International Group, Inc, (“AIG”) the insurance company which initially provided the Investment Contract in support of the termination payment, was downgraded last week by the financial rating agencies. The \$85 billion loan offered by the United States Federal Reserve in exchange for an almost 80 percent equity ownership has stabilized AIG; and late last week AIG provided a quote to the parties for the termination of the Investment Contract. However, because of the volatile situation at AIG, the quote is good for a

Leases. As previously reported to the Commission, on June 30, 2008, those two leases were terminated, leaving Phillip Morris Capital Corporation as the only remaining equity party to the Leverage Leased transaction.

short period of time and AIG has not been willing to provide assurances about a methodology that might be applied to a longer-term commitment. All parties are evaluating the AIG proposal, and expect to respond to AIG during this week.

The cash termination plan has a number of advantages, including a simplified documenting process that Big Rivers believes will be based upon the documents used to terminate the Bank of America Leasing lease in June of this year. Upon termination of the three Leveraged Leases held by PMCC at the closing of the Unwind Transaction, none of the Leverage Leases will survive; the Ambac Issue will be completely resolved; the parties involved in Big Rivers' credit arrangements solely because of the Leveraged Leases will be removed from those credit arrangements; and a number of issues and documents previously presented to the Commission in this matter will be eliminated.

The parties have identified the agreements necessary to implement this resolution, assigned responsibility for the preparation of the documents, and are circulating the documents for comment and review, including the proposed amendments to the agreements with the smelter parties and the Transaction Termination Agreement between Big Rivers and the E.ON Parties. Several of the documents are now complete. Several more of the documents are nearly complete. Testimony is being prepared by Big Rivers and E.ON and is presently under review along with the documents. The draft documents along with testimony, an updated version of the Financial Model reflecting the cash termination of the PMCC Leveraged Leases and other changes, and an amended application and motion requesting leave to amend the application will be filed with the Commission when the documents are substantially complete, including review of and comment by RUS. At that time, Big Rivers and the E.ON Parties will propose a

procedural schedule for filing testimony and documents associated with the resolution of the Ambac Issue and the changes to the Unwind Financial Model, and disposition of this case.

A supplemental report on the progress made by the Applicants will be filed with the Commission by Monday, September 29, 2008.

Other Issues

Big Rivers and WKEC continue to work on other closing related items, and have now targeted the closing of the transaction before the end of the year (a change from the November 21, 2008 date given in the Status Report), assuming the agreed conditions precedent to that closing have been satisfied by that date. An update on the progress made toward resolving closing-related items will be provided to the Commission along with the filing presenting the resolution to the Ambac Issue.

Big Rivers and the E.ON Parties will keep the Commission and the parties to this proceeding abreast of the progress of the resolution of the Ambac Issue by e-mail message to the counsel of record.

Should the Commission have any questions at any time about the contents of this Supplemental Report or the status of the transaction, please contact us at your first convenience.

Dated: September 22, 2008

James M. Miller /KOR with permission

James M. Miller

Tyson Kamuf

Sullivan, Mountjoy, Stainback

& Miller, P.S.C.

100 St. Ann Street

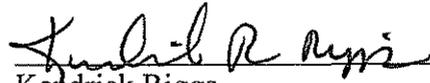
P.O. Box 727

Owensboro, Kentucky 42302-0727

Telephone No. (270) 926-4000

COUNSEL FOR BIG RIVERS

ELECTRIC CORPORATION



Kendrick Riggs
Stoll, Keenon, Ogden PLLC
2000 PNC Plaza
500 W. Jefferson Street
Louisville, Kentucky 40202-2828
Telephone No. (502) 333-6000

Allyson Sturgeon
Senior Corporate Counsel
E.ON U.S. LLC
220 West Main Street
Louisville, Kentucky 40202
Telephone No. (502) 627-2088

COUNSEL FOR E.ON U.S., LLC,
WESTERN KENTUCKY ENERGY
CORP. AND LG&E ENERGY
MARKETING INC.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing September 22, 2008 Supplemental Status Report was served via U.S. mail, first-class, postage prepaid, this 22nd day of September 2008, upon the following persons:

C. William Blackburn
Big Rivers Electric Corporation
201 Third Street
P. O. Box 24
Henderson, KY 42420

Michael L. Kurtz
Boehm, Kurtz & Lowry
36 East Seventh Street
Suite 1510
Cincinnati, OH 45202

David Brown
Stites & Harbison, PLLC
1800 Providian Center
400 West Market Street
Louisville, KY 40202

James M. Miller
Sullivan, Mountjoy, Stainback & Miller, PSC
100 St. Ann Street
P.O. Box 727
Owensboro, KY 42302-0727

Dennis G. Howard II
Assistant Attorney General
Office of the Attorney General
Office of Rate Intervention
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204

Douglas L. Beresford
George F. Hobday Jr.
Hogan & Hartson, LLP
555 Thirteenth Street, N.W.
Washington, DC 20004-1109

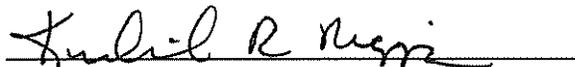
John N. Hughes
Attorney at Law
124 West Todd Street
Frankfort, KY 40601

Melissa D. Yates
Denton & Keuler, LLP
555 Jefferson Street
P. O. Box 929
Paducah, KY 42002-0929

Frank N. King, Jr.
Dorsey, King, Gray, Norment & Hopgood
318 Second Street
Henderson, KY 42420

Don C. Meade
Priddy Cutler Miller & Meade
800 Republic Building
429 West Muhammad Ali Blvd.
Louisville, KY 40202

David Brevitz
Brevitz Consulting Services
3623 Southwest Wood Valley Terrace
Topeka, KS 66614


Counsel for E.ON U.S. LLC, Western Kentucky
Energy Corp. and LG&E Energy
Marketing, Inc.